

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6354

BILL NUMBER: SB 241

DATE PREPARED: Nov 15, 2001

BILL AMENDED:

SUBJECT: Sales Tax Exemption for Energy Star Appliances.

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FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State

STATE IMPACT	FY 2002	FY 2003	FY 2004
State Revenues		(3,200,000)	(3,700,000)
State Expenditures			
Net Increase (Decrease)		(3,200,000)	(3,700,000)

Summary of Legislation: This bill exempts sales of certain energy-efficient appliances from the state Gross Retail Tax for sales occurring after June 30, 2002, and before January 1, 2007.

Effective Date: Upon passage.

Explanation of State Expenditures: The bill would require the Department of State Revenue to develop rules associated with this proposal. Any impact on the Department is expected to be absorbed using its existing staff and resources.

Explanation of State Revenues: This bill temporarily exempts the sale of clothes washers, refrigerators, dishwashers, and room air conditioners that meet or exceed the Energy Star efficiency standards developed by the U.S. Environmental Protection Agency (EPA) and the U.S. Department of Energy (DOE) from the state Sales Tax. The exemption is limited to sales that occur from June 30, 2002, to January 1, 2007. It is estimated that over the life of the exemption period the impact on state revenues will be as follows:

FY 2003	(3.2 M)
FY 2004	(3.7 M)
FY 2005	(4.2 M)
FY 2006	(5.0 M)
FY 2007	(2.7 M)
Total	(\$18.8 M)

The estimates shown above are based on the average price of each type of qualified Energy Star appliance, the estimated market share of each type of qualified appliance, and the estimated total number of units of each type of appliance sold in Indiana. The analysis also assumed that the bill's effective reduction in the price of qualified appliances would increase the number purchased by 2% each year. This increase is in addition to the estimated growth in the market share of Energy Star appliances as a result of changes in federal standards and in manufacturing efficiencies.

Gross Retail (Sales) and Use taxes are deposited in the State General Fund (59.03%), the Property Tax Replacement Fund (40%), the Public Mass Transportation Fund (0.76%), the Commuter Rail Service Fund (0.17%), and the Industrial Rail Service Fund (0.04%). The reductions in these funds for FY 2003 (the fiscal year affected by the exemption) are estimated to be:

State General Fund	\$ 1,888,960
Property Tax Replacement Fund	\$ 1,280,000
Public Mass Transportation Fund	\$ 24,320
Commuter Rail Service Fund	\$ 5,440
Industrial Rail Service Fund	\$ 1,280
Total	\$ 3,200,000

If more energy-efficient appliances are purchased as a result of this bill, the state may see further reductions in Sales Tax income generated from the sale of electricity, natural gas, and water. Estimates from research sponsored by the Energy Star program suggest that if the bill encourages the purchase of 2% more Energy Star-rated appliances in Indiana each year, Sales Tax revenue for the sale of these utilities could be reduced by as much as \$48,000 per year.

Purchasers of exempted Energy Star appliances may choose to use the savings created by this exemption to purchase other taxable goods that would not have been purchased otherwise. If additional taxable goods are purchased, the impact of this proposal may be partially mitigated.

Background Information: The Energy Star program was developed by the U.S. DOE and the EPA. An appliance receives an Energy Star label if it is significantly more energy efficient than the minimum government standards. According to the EPA, Energy Star-labeled products are among the most energy efficient available.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: Association of Home Appliance Manufacturers; U.S. Bureau of Labor Statistics, *Consumer Expenditure Survey*; Bill McNary, D and R International, 301-588-9387; U.S. EPA and U.S. Department of Energy, www.energystar.gov.